

Message Text

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44

ACTION COME-00

INFO OCT-01 EUR-25 IO-12 ADP-00 AID-20 CIAE-00 EB-11

FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 L-03 RSR-01 /115 W
----- 123583

R 221600 Z MAR 73

FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC 3265

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THEHAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY PARIS

USMISSION GENEVA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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FOR COMMERCE

E. O. 11652 N/ A

TAGS: EFIN

SUBJECT: LUXEMBOURG' S SUBSIDY PROGRAM FOR NEW INVESTMENTS

REF: A) LUXEMBOURG A-7, JANUARY 26, 1972 B) STATE 32280

1. ARMAND SIMON, TOP CAREER CIVIL SERVANT IN MINISTRY
OF ECONOMIC AFFAIRS, REVIEWED FOR EMBOFF CONTENTS AND
STATUS OF INDUSTRIAL DEVELOPMENT BILL. BILL WILL
PROVIDE INVESTMENT INCENTIVES SIMILAR TO THOSE IN
EFFECT BEFORE PREVIOUS LEGISLATION EXPIRED IN 1971
(REF. A). GOL ASSISTANCE WILL NOT EXCEED 15 PERCENT
OF TOTAL INVESTMENT. ASSISTANCE CAN INCLUDE REBATES
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ON INTEREST RATES FOR LOANS, STATE SUBSIDIES FOR COST OF EQUIPMENT AND WORKER RETRAINING PROGRAMS AND VARIOUS TAX DEDUCTIONS. IN EXCEPTIONAL CASES GOL WILL EVEN CONSIDER GUARANTEEING LOANS. SIMON HOPES NEW LEGISLATION WILL BE PASSED BEFORE JUNE 1973.

2. AD HOC STOP- GAP MEASURES HAVE BEEN USED SINCE INVESTMENT LAW EXPIRED AT END OF 1971. SIMON SAID PRINCIPAL REASON FOR DELAY IN PASSING NEW LEGISLATION HAS BEEN OBSTINACY OF EUROPEAN COMMISSION IN NOT APPROVING LUXEMBOURG' S PROPOSED REGIONAL INVESTMENT PROGRAMS. ALL INVESTMENT PROGRAMS OF MEMBER STATES MUST BE APPROVED BY COMMISSION BEFORE THEY GO INTO EFFECT.

3. COMMISSION POLICY HAS BEEN TO LIMIT DISTORTIONS TO COMPETITION BY INSISTING THAT AIDS BE PROVIDED ONLY FOR DEPRESSED REGIONS OR SECTORS OF INDIVIDUAL COUNTRIES. IN OCTOBER 1971, EC COUNCIL STATED THAT A PROGRAM APPLYING INCENTIVES TO ALL REGIONS OF A COUNTRY WAS TOO GENERAL AND COULD NOT BE APPROVED. HOWEVER, THEY AGREED THAT BECAUSE OF ITS SMALL SIZE LUXEMBOURG WAS TO BE AN EXCEPTION FOR DEVELOPMENT PURPOSES. SIMON CLAIMS THAT COMMISSION IGNORED THE INTENT OF THIS EXCEPTION CLAIMING THAT ALTHOUGH LUXEMBOURG IS A WHOLE REGION IT MUST STILL SPECIFY INDIVIDUAL DEVELOPMENT ZONES. COMMISSION ONLY APPROVED LUXEMBOURG PLAN AFTER GOL HAD COMPLETELY ELIMINATED REGIONAL APPROACH. PRESENT LEGISLATION PROVIDES ONLY SECTORIAL AIDS AND GOL WILL HAVE TO SUBMIT TO COMMISSION FOR PRIOR APPROVAL ANY LARGE INVESTMENT PROJECT. COMMISSION DISALLOWED GOL' S PROPOSAL TO SUBSIDIZE INDUSTRIAL ANTI- POLLUTION INVESTMENTS CITING " COMPANY MUST PAY" PRINCIPLE.

4. SIMON CONCLUDED BY OBSERVING THAT MANY COUNTRIES, PARTICULARLY BELGIUM AND ITALY, WERE DISTURBED OVER COMMISSION' S ARBITRARY ATTITUDE ON REGIONAL DEVELOPMENT PROGRAMS IN WHICH IT ONLY CONSIDERS ABSTRACT ECONOMIC IDEAS AND IGNORES POLITICAL REALITIES OF MEMBER STATES POSITIONS. THIS AREA IS ONE OF FEW WHERE COMMISSION HAS RIGHT TO VETO PROPOSALS OF MEMBER LIMITED OFFICIAL USE

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STATES. MEMBER STATES' BITTERNESS OVER COMMISSION' S

" ABUSE OF POWER" DOES NOT AUGUR WELL FOR GIVING COMMISSION THIS POWER IN OTHER FIELDS. HE HOPED THAT NEW COMMISSIONER FOR REGIONAL DEVELOPMENT PATRICK HILLARY WOULD EXHIBIT MORE FLEXIBILITY IN THIS QUESTION THAN HIS PREDECESSOR.

5. AS REPORTED IN REF. A, THERE IS NO INDICATION THAT GOL' S INCENTIVE POLICY HAS STIMULATED EXPORTS BY SIGNIFICANTLY IMPROVING COMPETITIVE POSITION OF PRODUCTS PRODUCED IN LUXEMBOURG OVER PRODUCTS FROM THE U. S. INDUSTRIAL INCENTIVES COME INTO PLAY AFTER COMPANY HAS DECIDED TO SET UP OUTSIDE ITS OWN BORDERS AND ARE IMPORTANT ONLY IN CHOOSING LOCATIONS. THERE IS NO QUESTION OF SPECIAL EXPORT INCENTIVES AS LUXEMBOURG MARKET IS SO SMALL, ALL SPECIALIZED PRODUCTS MUST BE EXPORTED. EMBASSY REITERATES CONCLUSION OF REFERENCED STUDY THAT U. S. BALANCE OF TRADE IS FAVORABLY AFFECTED BY U. S. INVESTMENTS IN LUXEMBOURG BECAUSE OF CONTINUING DEMAND FOR AMERICANS INPUTS OF MACHINERY AND RAW MATERIALS, CREATION OF MARKETING AND SERVICING FACILITIES FOR AMERICAN AS WELL AS LUXEMBOURG PRODUCTION AND FACT THAT OFTEN GOODS SIMPLY CANNOT BE SUPPLIED FROM STATE- SIDE PLANTS EVEN GIVEN RECENT PARITY CHANGES. EMBASSY UNDERSTANDS REASONS FOR QUESTIONNAIRE BUT HOPES ABOVE WILL BE BORNE IN MIND DURING ANALYSIS OF RESULTS.

6. LUXEMBOURG IS PROBABLY ONLY EC GOVERNMENT NOT PROVIDING EXPORT CREDITS. GOL IS TOO SMALL TO PROVIDE FINANCING FOR THE LARGE LUXEMBOU
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